

Korea's Active Labor Market Policy: Its Birth, Establishment, and Development

Jai-Joon Hur(Korea Labor Institute)

hurjj@kli.re.kr

I. Introduction

At the end of the Second World War in 1945, the Soviet Union temporarily occupied North Korea, which possessed most of the natural resources and industrial facilities of Korea at that time, and the United States temporarily occupied South Korea, whose major economic source was agriculture. The conflict between North and South Korea led to the three-year Korean War, which destroyed the nation's meager industrial facilities. As a result, the South Korean economy was not able to be maintained without aid and loans from the United States during the 1950s and 1960s. South Korea's GDP per capita in 1960 was \$68, one of the lowest in the world, and poverty was rampant, with more than 80% of Koreans living under poverty line. In 1963, the population of South Korea was 24 million, there were as many as 2.5 million people unemployed, and the number of companies which had more than 200 employees was only fifty four (Huh 2009); therefore, job opportunities at that time were extremely limited. The nation also had almost none of the three necessary elements for economic growth – natural resources, industrial facilities, and capital.

Starting in 1962, Korea's economic development strategy was to import raw materials, manufacture goods domestically, and then export the finished products. While most newly independent countries were pursuing economic growth through the production of import-substituting goods, Korea focused on overseas' markets and aggressively pursued an export-oriented growth strategy. By taking advantage of the world market and trade liberalization in the world economy, Korea had become one of the leading developing countries in the early 1990s. The GDP per capita had increased from \$82 in 1962 to \$6,412 in 1990, and the rate of unemployment had dropped from 8.1% in 1963 to 2.4% in 1990. In addition, the number of companies that had more than 200 employees had increased to more than 2,500, and quite a few companies were beginning to complain of a shortage of labor supplies.

During the development era of 1962 to 1987, the government suppressed the radical labor movement in order to concentrate all the available resources on economic development, and policies related to collective labor relations were very restrictive. Labor strikes were rarely allowed, although long working hours and low wages were common practice at that time. In contrast to this, policies regarding individual employment relations were relatively generous. For example, it was required by law that workers were to receive 50% more than their normal wages when working overtime, and worker allowances equivalent to 70% or more of their wages were to be given during periods when businesses were suspended. The legacy of these policies remains part of the current Labor Standards Act.

During this development period, the government had not introduced any institution of social protection system except for Work Injury Compensation Insurance, which was introduced in 1964. It wasn't until 1977 that the National Health Insurance Plan was initiated. Before this time, the government demanded that individual companies be responsible for the protection of their employees. Thus, employers were obliged to pay family allowance to their

employees according to the number of the supported family members as well as severance pay to employees who left either voluntarily or involuntarily if they had worked at the company more than one year continuously. The severance pay played the role of unemployment benefits on the one hand and the role of pensions on the other hand when the National Pension and Unemployment Insurance schemes did not exist.

During this time, the main duty of the former Labor Administration, now called the Ministry of Employment and Labor, was to prevent labor disputes. They were also partially involved in the management of the Work Injury Compensation Insurance plan, which was introduced in 1964, and operated teams which supported the dispatch of labor to Germany in 1960s and to the Middle East in the latter part of the 1970s. At that time, the focus of employment policy was on job creation through high growth (Ministry of Labor 2006b: 36). The main contents of the Development Plans were composed of strategies to develop new industries so that they would absorb excess labor in the agricultural sector and turn the workers in existent industries to new industries with high productivity. In fact, the high growth rate of 9.4% created over 440 thousand additional jobs per year on average without deteriorating income distribution in the 1970s and 1980s. This virtuous circle of growth and employment with reasonable income distribution relieved the Korean economy of concern about 'active' labor market policies and social protection needs and maintained the firm-based welfare system.

It was only in the 1990s that the concept of an active labor market policy in a proper sense came into the employment policy area with the introduction of the Employment Insurance System (EIS). Before, the mainstream of the institutionalized labor market policy program was regarding training policies to meet the skills requested by newly developed industries. In part, there were considerations on public employment service, but few resources were

allocated and the number of agencies, staff and financial resources fell short of implementing public employment service in a proper sense. Policies against unemployment frequently appealed to ad hoc public works programs for low income families rather than dealt with unemployment benefits or assistance.

In this paper, the author will discuss the evolution of Korea's labor market institutions from the viewpoint of how the concept of active labor market's policies was introduced and finalized. To this end, the author will examine Korea's employment policy before active labor market policies were explicitly established and the birth and development of the EIS. The paper is organized in the following manner: Section II will examine changes in the labor market condition and the evolution of employment policy. Section III will discuss the birth of the EIS. Section IV looks at the settlement and development of the EIS. Finally, Section V will summarize the key points of the paper and discuss its implications for developing countries which seek for relevant labor market institutions.

II. Changes in the Labor Market Condition and the Evolution of Employment Policy

1. The 1970s: The provision of skills for heavy and chemical industrialization in the light industry economy

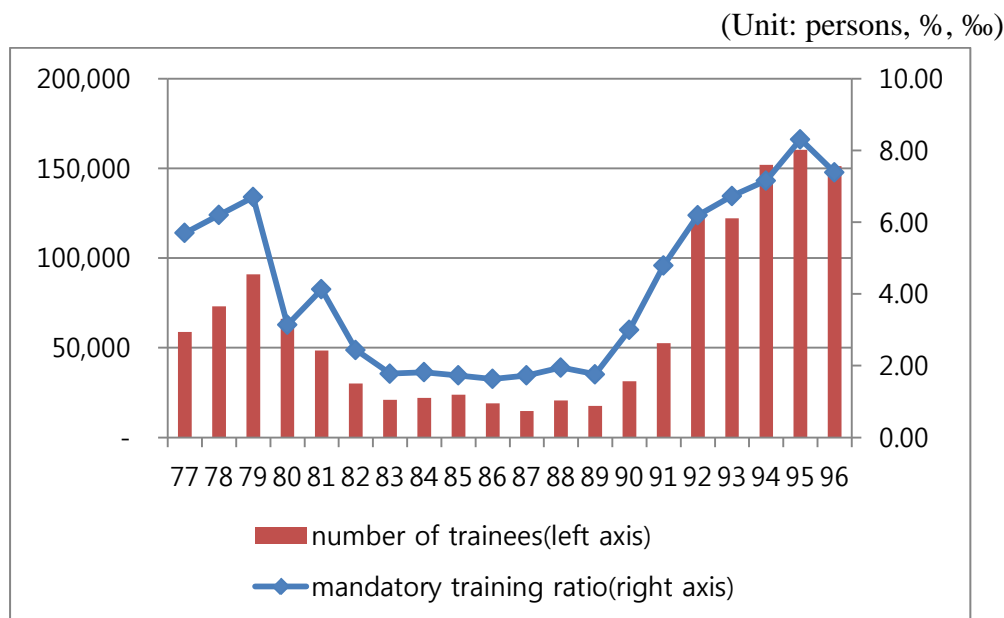
A historical look at the process of economic development reveals that, during the transition from an agricultural to an industrial economy, the supply of unskilled labor is almost unlimited at the subsistence wage level (Lewis 1954). In the 1960s to mid-1970s, continuing migration from rural to urban areas provided a seemingly endless pool of workers for the urban industrial sector. It was in the mid-70s that the unlimited supply of labor ended in Korea (Bae 1982).

Up to that point in time, the main industrial products in Korea included wigs, shoes, and plywood, all of which were produced by labor-intensive industries that were able to function solely with unskilled labor. This labor force could be obtained primarily from vocational schools, public training centers established via international aid programs and loans from ADB and IBRD, and other training facilities recognized by the government. The primary labor market at that time was the modern industrial sector in urban areas, where the demand for production workers was met by the supply of workers with basic skills and the widespread underemployed workforce in the urban peripheral areas constituted the secondary labor market, providing a backup resource of potential labor supply for the primary market.

From 1975 on, the elasticity of labor supply reduced considerably, wages grew to two digits, the relative wages of production workers increased, and the labor share and job vacancy ratio increased sharply (Bae 1982). Even though the elasticity of employment in the manufacturing industry reduced due to the weight of the economy moving from a labor

intensive light industry to a more capital intensive heavy and chemical industry, overall employment increased as a result of the high growth rates of manufacturing, which amounted to 16.2% per annum, and a construction boom both in the domestic market and construction worker export to the Middle East. Along with this change in industrial structure, employment in the urban informal sector continuously decreased, and a labor shortage arose partially in the construction industry, which led to a dramatic increase in wages.

Figure 1. The number of trained workers and mandatory training ratio



Note: The mandatory ratio is a percentage ratio of the number of effective workers until 1986 and a per mille ratio of the total wage bill from 1987.

Source: Ministry of Labor, *Current Status of Vocational Training Plan*.

The core of employment policy in this period was a vocational training plan. The main feature of the plan was a mandatory training program which requested large firms to train a certain number of workers. The firms had to train the number of workers which amounted to a certain percentage of their effective employees. This percentage was announced each year

by the government (the ratios in Figure 1).¹ Those firms which failed to train the notified number of workers had to pay a levy which amounted to the training cost of the equivalent number of workers.

2. The 1980s: The rapid transformation of the industrial structure and emergence of labor shortage

In 1980, the unemployment rate surged to 5.2% due to a severe recession which resulted from the “second oil shock.” In addition, because of an overinvestment in the facilities for shipbuilding and chemical industries during the second half of the 1970s, this heavy and chemical industry sector had to go through restructuring in the early 1980s. However, the economy and employment could achieve stability due to ‘real wage flexibility’ and the resulting increase in competitiveness in international markets (Bruno and Sachs 1985). In other words, even though a period of unlimited supply of labor came to an end in the mid-1970s, the domestic labor supply could meet the demand for labor, including skilled production workers, without much difficulty until the early 1980s.

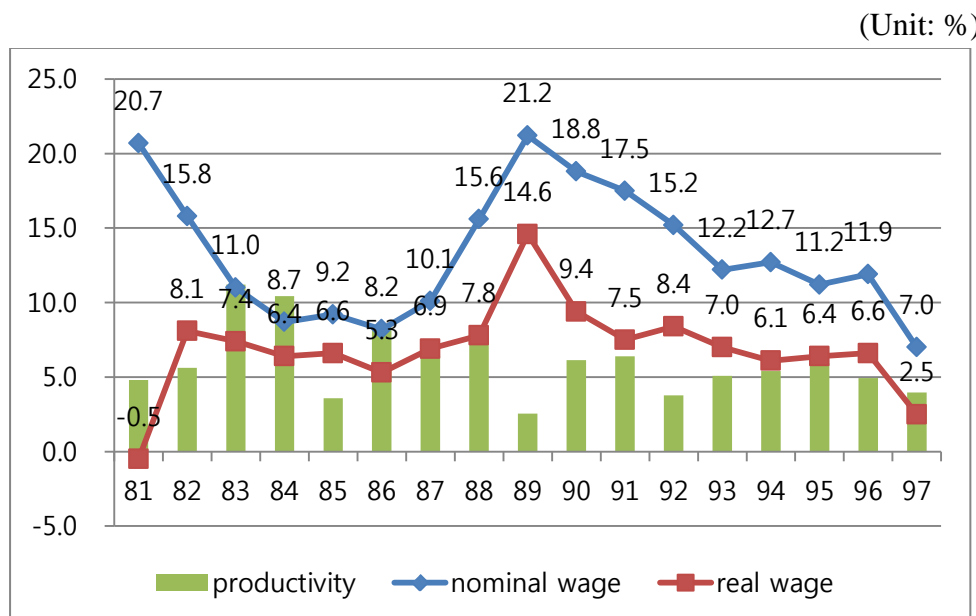
From 1987, due to a drop in the price of oil and the international interest rate and a relative decline in the value of the Korean Won against the Japanese Yen, Korea’s exporting competitiveness greatly increased and the Korean economy experienced the so-called “3-Low Boom.” In effect, Korea had been importing intermediate materials and financed investment

¹ The mandate, first introduced in 1975, was extended to firms with at least 300 employees in 1977, those with at least 200 employees in 1989, and those with at least 150 employees in 1992. With the introduction of the Employment Insurance System in 1995 the mandate was applied only to those firms with at least 1000 employees until 1998, and it was abolished in 1999, being integrated fully to the Job Skill Development Pillar of the EIS. The percentage of the number of workers mandatorily trained was 5.7% in 1977, 6.2% in 1978, 6.7% in 1979, 3.14% in 1980, 4.13% in 1981 and 2.44 in 1982. Afterwards it was in the interval of 1.63-1.78 between 1983 and 1986. From 1987, the regulation on mandatory training changed from the ratio of the number of effective workers to a per mille ratio of the total wage bill (Figure 1).

capital by borrowing loans from the world financial market instead of inviting foreign direct investment, and more and more goods were beginning to compete with Japanese export goods in the world market. An accelerating tendency toward free trade in the world market combined with this “3-Low” phenomenon enabled the Korean economy to consolidate itself further and the labor market to experience its largest change in the 1980s.

With a significant growth of employment in the manufacturing and service industries which increased by 6.0% and 5.1% per annum respectively, the rate of unemployment dropped to under 3% from 1988. The political democratization, which started in 1987, encouraged workers’ claims for rights that had been suppressed up to that point. As a consequence, the rate of wages increased to the double digits from 1987 while the rate of inflation remained in the single digits and the purchasing power of workers’ wages increased rapidly (Figure 2).

Figure 2. Growth rate of labor productivity, real wages and nominal wages



Source: Ministry of Employment and Labor, *Establishment Labor Force Survey*.
Bank of Korea, *National Account*.

This was also an era when general employment condition had improved and labor shortages emerged as an issue in the labor market. The labor market experienced a disequilibrium and at the same time a conflict between workers and companies. Due to these changes, a policy initiative of not only raising the participation of women and elderly workers but also inviting foreign workers was seriously considered. The participation rate of women aged 15-64 increased from 45.1% in 1981 to 47.9% in 1988 and then to 49.9% in 1990, but this was far lower than other industrialized countries.

Large corporations, which were able to procure financial resources for investment with relative ease through export financing, invested on a large scale and hired a number of workers regularly under long-term growth perspectives. These companies recruited regularly in order to maintain a quality workforce. As a result, the employment of young workers increased without precedent as well as the employment rate of elderly workers (Hur and Cheon 1998). Therefore, by 1991 the number of wage workers and, in particular, the proportion of regular employees increased sharply until 1993 (Figure 3).

From 1981, universities and college were allowed to accommodate almost twice as many students following educational reform by the new government, and the pool of highly educated employees increased, on the other hand the supply of production workers reduced, causing a rapid increase in the relative wages of production workers. However, the gap in productivity and wages between companies of different sizes began to widen after 1988. In addition, SMEs could not afford wage levels as high as those of large companies. Once qualified, workers moved from SMEs to large enterprises. This led to a shortage of production workers in small and medium-sized businesses.

Figure 3. Ratio of regular workers among wage workers and wage workers among total employment



Source: Statistics Korea, *Economically Active Population Survey*.

Large enterprises were taking advantage of an enlarged international market and growing rapidly. Banks allocated credit to large firms, which were thought to be risk-free. Large enterprises procured the financial resources for investment in the capital market to the extent they wanted. In this way, large enterprises could absorb highly qualified workers. These changes in the production market and capital market from the mid 1980s to the mid 1990s brought about a manpower disequilibrium and widened the wage gap between large and small to medium-sized companies.

The main basis of the employment policy in 1980s also consisted of a supply of manpower with relevant skills. A mandatory training-or-levy policy was maintained. However, the mandatory training ratio was lowered to less than 2 percent or per mille (Figure 1). At first, the objective of lowering the ratio was to relieve firms of labor cost burdens. In the second half of 1980s, however, policies reflected the condition of training in the labor market, where on-the-job training increased due to an economic boom, while off-the-job training was

diminishing. Also, the government allowed more autonomy by relaxing strict regulations on training contents and admitted diversification of training programs (Ministry of Labor 2006b: 256).

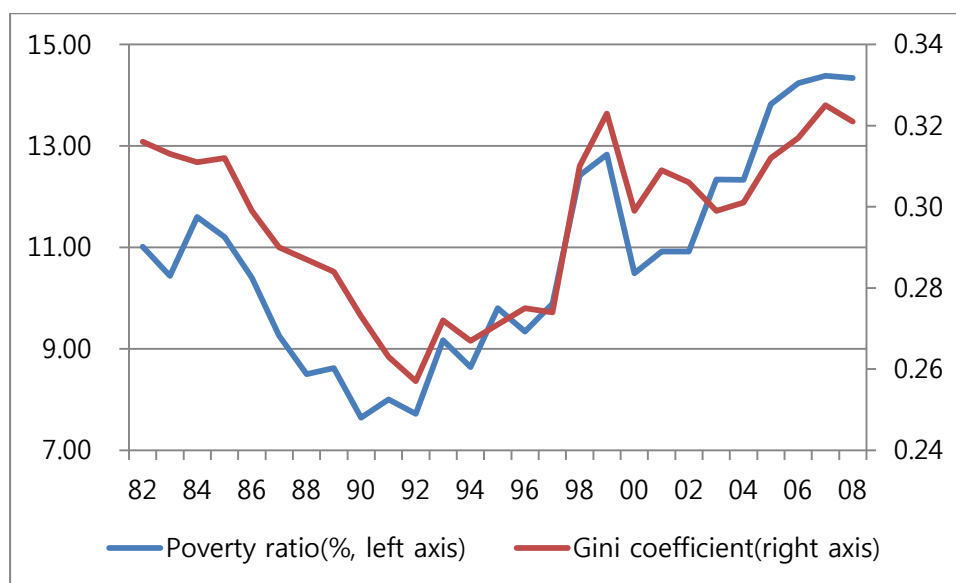
3. The 1990s: An increase in the demand for skilled labor with high adaptability, shift of HRM norms in firms, and the establishment of ALMP

The trade liberalization that had spread worldwide since the 1980s put more pressure on competition in the international market in the 1990s. On top of this, the pressure by OECD countries to open Korean capital markets became more severe. At this time, domestic demand for goods and services rose due to an increase in the purchasing power of workers, so the dependence on trade in the economy was at its lowest point since 1973. The dependency ratio reduced from 65.7% in 1987 to 52.7% in 1993. In addition, a deficit in the trade balance continued despite a rise in the exchange rate. In addition, the government started to open its capital market, which was one of the causes of the financial crisis in 1997.

Information and communication technology began to proliferate around 1993 in Korea, and its diffusion accelerated in 1997 (Hur, Seo and Lee 2002). As the pressure on competition in the international market and the impact of technological progress expanded, transformations in organizational structure and job security took place as well. Within organizations that primarily hired full-time employees, the diversification of job responsibilities, increased autonomy of employees, and decentralization of the decision-making process began to occur. Once the need to ensure the flexibility of the organizational restructuring and decision-making process became a focus, employment trends became destabilized and the relative wages of unskilled and non-regular workers decreased. Accordingly, overall income distribution began to worsen (Figure 4). With the advance of

information technologies, subordinate workers were able to obtain access to much information and knowledge, and it was possible for senior managers to have direct control over more employees than ever before. Thus, the role of middle management as a liaison between top management and bottom line workers gradually diminished, and the use of team units became commonplace in companies.

Figure 4. Evolution of the poverty ratio and Gini coefficient



Source: Statistics Korea, *Household Expenditure Survey*; Calculation by Yoo (2009).

The establishment of intra-networks using information and communication technologies gradually led to the dissembling of the traditional vertical hierarchy of organizations, and the demand for middle management and general administration officials decreased accordingly. On the other hand, the demand for executives, professional, experienced and skilled workers requiring high cognitive skills rose. The advancement of the dissemination of information technology brought asymmetrical fluxes in the labor market depending on the nature of the labor. As a result, employees with simple, repetitive work duties experienced both job

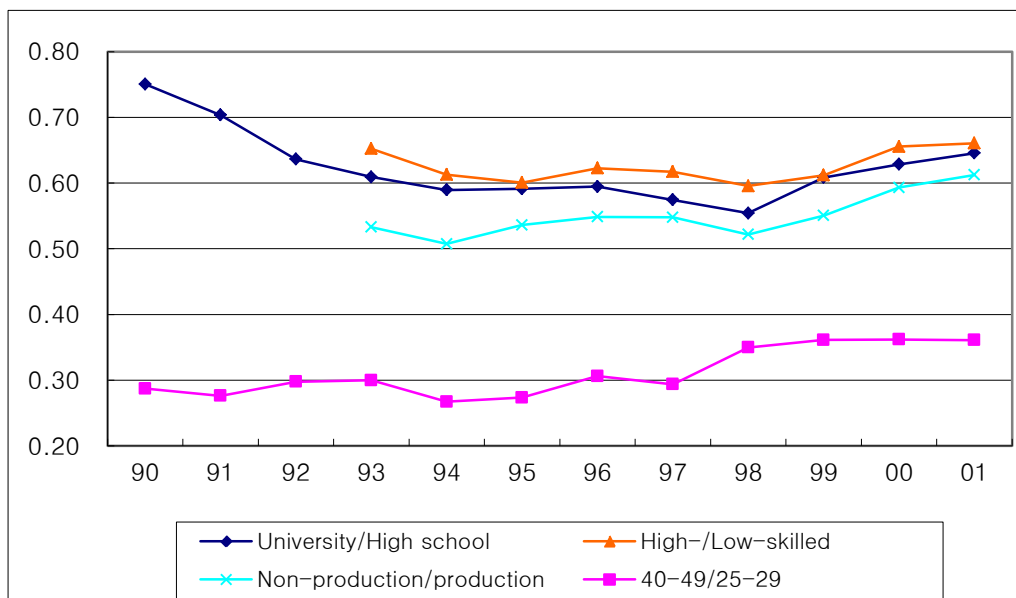
insecurity and a relative reduction in wages; employees that performed jobs requiring a higher level of cognitive skills also experienced job insecurity but at the same time saw an expansion of their autonomy in the workplace (Hur 2004; Seo, Hur and Lee 2004). The financial crisis in 1997 provided momentum which rapidly worsened job security and income distribution. This crisis also accelerated a change in the paradigm of the personnel management of companies, and the adverse effects of the existing job insecurity spread to the entire Korean economy. While the demand for highly adaptable labor increased significantly, the low-skilled, labor-intensive sector depended on production line outsourcing or non-regular workers. Also flexible employment relations prevailed in the name of ‘management by team.’

Figure 5 shows the education-, occupation-, and age-related wage differentials between 1990 and 2001. Up until 1998, the education premium fell, but started to rise considerably starting in 1999. The earnings ratio of different occupation groups shows a similar pattern to changes in the education premium, which fell until 1998, and rose thereafter. (‘High-skilled occupation’ is defined as ISCED skill level 3 and 4, and ‘low-skill occupation group’ is defined as ISCED skill level 1 and 2 of ISCO-88). Non-production/production worker earnings and age-related wage differentials widened from 1995. The earnings ratio between core age worker and the youth also increased from 1998.

This happened with the rising employment share of the high-skill occupation group while the employment share of young workers was falling. With the last cohort of the baby-boomers (those born in the first half of 1970s) already having joined the working age population by 1990, fewer and fewer young people went into the labor market throughout the 1990s. Therefore, like changes in the education and occupation wage differentials, the supply trends of young workers went against the rising wage differentials of prime-age workers.

These patterns were robust even though other factors that constituted traditional wage equations were controlled.

Figure 5. Between-group wage gaps (logarithm of hourly earnings)



Source: Ministry of Employment and Labor, *Wage Structure Survey*; Cited from Hur(2003).

Due to labor shortages which emerged in the late 1980s and the mismatches in the labor market which had worsened in the early 1990s among the workforce, discussions became active to introduce an active labor market policy. The government started to review the introduction of the Employment Insurance System (EIS) in 1992, and the EIS was introduced in July, 1995.

However, the number of workers who were to be enrolled in the EIS was limited to 4.3 million among 13.0 million employees. The coverage of the UI component of the EIS was limited to businesses with 30 or more employees because the administration capacity was deemed insufficient to manage all the wage workers. Traditionally, the Korean government introduced social protection schemes with a growth in the economy, but the schemes initially

covered a limited range of workers until the administration capacity was stabilized. In fact, the coverage of the Work Injury Compensation Insurance introduced in 1964, the National Health Insurance introduced in 1977, and the National Pension introduced in 1988 was limited to businesses that had five or more employees before the financial crisis in 1997. As for the National Health Insurance and the National Pension, those excluded workers in small firms could be covered under the title of self-employed, but they were simply excluded from protection as for the Work Injury Compensation Insurance and EIS due to the fact that these two social insurance schemes were, by nature, targeting only wage workers.

The financial crisis was a turning point in the expansion of the social insurance system. This system swiftly expanded because of the urgent need to secure a social safety net (Hur and Kim 2002). The expanse of this social safety net was emphasized as a means of tackling the issue of high unemployment, which had risen rapidly directly on the heels of the financial crisis, and a way of better protecting workers. The launch of the EIS meant an establishment of the ALMP institution and became a momentum in the large scale investment in PES. At first, labor market participants felt unfamiliar with unemployment benefits, public job placement services, and subsidies provided by the EIS, but they soon began to take advantage of them after the financial crisis in 1997.

4. The 2000s: A limited employment growth, large-scale direct job creation policy and the introduction of ‘activation’ programs

After the financial crisis, the concept of risk management was introduced into the financial market. Traditionally, loans to *Chaebeol* (large conglomerates) firms meant no risk to financial institutions because *Chaebeol* had never undergone bankruptcy. However, while overcoming the crisis, insolvent *Chaebeol* firms were closed or sold with debt write-offs.

Financial institutions themselves had to undergo closedowns or restructurings. Now, banks began to screen loans to firms and became conservative in lending. Companies proactively sought to secure a cash flow as well as a significant reduction in the investment rate.

In addition, with liberalized foreign direct investment, new norms were enforced in firms' management and investment decisions. Firms were obliged to respect share-holders' interests and had to allocate more on dividends than on internal reserves or new investments. A tendency to emphasize shareholders' interests pushed companies to seek a maximization of short-term returns rather than long-term returns. Adjusting and streamlining employment became a new practice in the labor market, and companies' compensation systems and investments in training were mainly provided to high-skilled workers, a practice which further widened the wage gap between workers.

This change in macroeconomic climate limited the growth of individual companies as well as the creation of jobs, and the labor market went through changes in standards once again after the mid-1970s. The average annual growth rate of the Korean economy during the thirty five years prior to the financial crisis had been 8.3%. It decreased to 4.3% during the period of 1998 to 2010 and the annual employment increase had declined from 430 thousand to 20 thousand.

The importance of a social safety net was emphasized, but even after the dust from the crisis had settled, requests for improvement of the social safety net continued in the 2000s because the structure of labor demand tended to increase employment insecurity, and a polarization of income distribution while the social insurance system did not protect those disadvantaged workers effectively. Moreover, the role of government transfer contributed little to mitigating aggravated income distribution.

While streamlining those policy programs against unemployment which were introduced during overcoming the financial crisis in 1997, the Korean economy experienced jobless growth in 2003; the GDP growth rate amounted to as much as 2.8%, but employment went backwards, recording a growth rate of -0.1%. This was received as a shock to the government, which pushed job creation programs and created 520 thousand jobs annually by public finance, not only public-work project programs but also jobs in the social service area were supplied. From 2008, the new government intended to reduce those direct job creation programs, but the programs were expanded to cope with the financial crisis in 2008.

In 2008, an activation program named the ‘Job Finding Success Package’ was introduced to care proactively for those workers in blind spots of the EIS and job seekers from low income families. This was a program based on a mutual obligation between job seekers and the government. In 2008, the Ministry of Employment and Labor prepared the ‘Package’ for 15 thousand job seekers and in 2012 this increased to 200 thousand job seekers.

The labor market transformed in accordance to changes in the economic structure, and the potential of job creation was determined by characteristics of the labor market. During the last forty years, the labor market and employment conditions had gone through continuous changes, and the issues had changed accordingly. A summary of these changes in labor conditions and policies are given in Table 1.

Table 1. Labor market condition and corresponding policies

	1970s	1980s	1990s	2000s
Main Economic Phenomena	High Inflation; The Oil Shocks	Low inflation; Economic boom due to 3- lows*; Trade surplus; Increased higher education (autonomy of recruitment in colleges and universities)	Increased international competition; Capital market liberalization; Accelerated technological advances; Rapid increase in productivity	Risk management in the financial institution; Shareholder-oriented management; Decrease in investment and growth rate
Core Industries	Light industries	Heavy and chemical industries	High value-added manufacturing industries	Converged and integrated information and communications technology industry
Main Labor market Phenomena	Fade-out of urban informal sector and underemployment	Wage increase of production workers; Appearance of labor shortage	Wage increase in high skilled jobs; Labor shortage in 3D jobs*	Lack of Jobs, especially for youth; Expanded wage gap between large companies and SMEs; Reduction of self-employed sector
Key demand for labor	Production workers with basic skills	Skilled production workers	High-skilled workers	High-skilled workers with high adaptability and multiple skills
Primary labor market	Modern industrial sector employees	Employees in large firms and growing industries	Employees in large firms	Unionized regular employees in large firms
Major Employment Policy	Supply of production workers through vocational training institutions; mandatory training-or -levy policy to large firms; Public work programs	More autonomy for firms' training; Policy programs to utilize potential labor force such as women and senior citizens	UI, investment on PES; Raise of training ratio; Invitation of foreign workers; Regulations on dispatched workers	PES upgrading; Introduction of 'activation' program; Public financed job creation; Employment permit system; Regulations for non-regular worker use
Recruitment and Adjustment of Labor in Firms	Proactive recruitment in preparation for business expansion		Adjusting employment by voluntary early retirement	Employment adjustment depending on economic condition
Human Resource Management	Keeping manpower reserves in preparation for future growth; Recruiting regularly to procure quality workers; Overcoming recession by wage flexibility		Reserving suitable level of manpower	Reserving core workers only; Outsourcing non-core workers Hiring mainly experienced employees
Personnel Organization	Hierarchical decision making		Introduction team-operating systems	Common practice of team-operating systems

Note: 1) Three lows in 'Economic boom due to 3-lows' is a jargon describing low oil price, low interest rate in the international capital market and low exchange rate, the phenomena observed in late 1980s.

2) '3D jobs' is a jargon designating dangerous, dirty, demanding jobs

III. Birth of the EIS

1. Prehistory of discussions on unemployment insurance

In the 1970s, the Labor Office compiled several reports on the need to introduce unemployment insurance. Two documents, each titled “Review on the Introduction of Unemployment Insurance,” thought to be compiled in 1974 and 1978 respectively, were submitted to the head of the Labor Office at the time, but they were not shared with any other government bodies or the public (Yoo 2011). The system that was reviewed for possible introduction was not the type of EIS which is currently in effect but was closer to a European type of unemployment insurance or assistance.

After the second oil shock, the Korean economy went through a severe recession in 1979 and 1980. This economic recession, combined with political instability, resulted in a high unemployment rate in the early 1980s. The non-agricultural unemployment rate reached 5.6% in 1979, 7.5% in 1980, and 6.5% in 1981. The Ministry of Labor, which had been upgraded from the Labor Office, officially requested that the Economic Planning Board introduce an unemployment insurance system. As a result of this request, the Economic Planning Board and the Ministry of Labor started a formal review of the introduction of unemployment insurance within the context of revising the fifth Five-Year Plan for Economic and Social Development (Ministry of Labor 2006). However, many concerns were raised at that time. Among them were concerns over labor costs, the immature industrial structure, the

overwhelming number of micro firms characterized by informality,² a lack of administrative capacity, and possible moral hazards related with them. Objections from businesses were strong. In fact, Korea was offering a generous severance pay scheme which served part of the role of an unemployment benefit. The severance pay played two roles: providing income support to the unemployed and maintaining income security for the retired. In the inter-governmental discussions, Ministries other than the Ministry of Labor and the presidential office objected to the introduction of unemployment insurance. It was decided that the unemployment insurance would not be during the era of the fifth Five-Year Plan for Economic and Social Development.

However, in these discussions, a consensus began to emerge that a traditional unemployment insurance system which simply provided unemployment benefits after job loss was not appropriately relevant to the Korean labor market. It was also felt by some that these passive measures alone could not ensure a stable livelihood for workers, and that it was more important to prevent unemployment, improve the employment structure, and enhance the vocational competency of workers in a system that combined traditional unemployment insurance with vocational training and employment stabilization programs. To distinguish such a system from unemployment insurance, it was decided that this proactive system should be called “employment insurance.” Based on such consensus the terminology ‘employment insurance’ was used apart from ‘unemployment insurance’ in government circles from the early 1980s (Yoo 2011).

² In 1994, the proportion of workers in business establishments with 1-4[1-29] employees was in the order of 17.0% [44.6%] of the total employees and 74.5%[95.6%] of the total 9.4 million establishments. As of 2007, the proportion of workers in business with 1-4 [1-29] employees explained 17.3% [49.8%] of the total employees and 68.5%[95.4%] of the total number of establishments which amounted to 11.0 million. In early 1980s, the proportions micro or small firms must have been comparable to that of 1994 or 2007 while the total number of establishments was much smaller.

2. Launching of the EIS

Up until early 1991, negative opinions about the introduction of unemployment insurance were still widespread within the government. On March 37, 1991, however, “The Need to Introduce Employment Insurance and Directions for its Introduction,” was presented by Dr. Yoo Kil-Sang of the Korea Labor Institute, who had worked in the Economic Planning Board, before high officials from the Economic Planning Board and the Ministry of Labor, and it was agreed in ensuing discussions at the working level that the EIS would be introduced within the period of the seventh Five-Year Plan for Economic and Social Development. At this point, the Korean government started to actively review the introduction of the EIS in establishing the seventh Five-Year Plan. Finally, members of the Economic Ministers’ Meeting of August 23, 1991 made the decision that the EIS would be introduced in the latter half of the period covered by the seventh Five-Year Plan (Yoo 2011).

With its decision to introduce the EIS, the Korean government sought to develop an employment insurance model suiting the particular circumstances of the Korean economy and therefore established the Employment Insurance Research Task Force within the Korea Labor Institute in March, 1992 to research employment insurance models. This task force, which consisted of thirty scholars, analyzed the characteristics of the Korean labor market and the structure of unemployment in Korea and engaged in comparative analyses of the unemployment insurance system and labor market programs in major countries to develop an employment insurance model suitable for the situation in Korea. The results were compiled into “A Proposed Employment Insurance System for Korea,” which was submitted to the government on May 18, 1993 (Ministry of Labor 2006).

Based on this proposal, the Ministry of Labor proceeded to draft an Employment Insurance Bill and the government collected opinions from academia, labor, and management, and held a public hearing on the Bill with participation from labor and management groups and other stakeholders. The bill was unanimously passed by the plenary of the National Assembly. In April, 1994, the government established the Employment Insurance Division within the Ministry of Labor to prepare for its implementation. The Ministry of Labor worked to legislate rules, regulations, guidelines, and notices needed for the compilation and implementation of a work manual in order to revamp the organization, hire personnel, and conduct preliminary training for regional labor offices responsible for frontline operations as well as to develop and test computer programs that would support the collection of insurance premiums, the management of enrollees, and the payment of unemployment benefits.

Eventually, Korea introduced the Employment Insurance System on July 1, 1995. This system consisted of three components: unemployment insurance (UI), job training, and employment maintenance/promotion subsidies. Owing to a limited administrative capacity, only workers in firms with 30 or more employees were initially covered. As a result, the fourth pillar of the Korean social insurance system, the EIS, was established, the other three being the Work Injury Compensation Insurance, National Health Insurance, and National Pension.

3. Changes in the vocational training system and public employment services

With the introduction of the EIS, the unemployment benefit and employment subsidies fell into the category of labor market policy. Besides, the vocational training system and public employment service went through remarkable changes with the introduction of the EIS. The

existing vocational training system, which focused on initial training for skilled workers in manufacturing, was converted into a lifelong vocational competency development system.

Under the ‘Basic Act on Vocational Training,’ which regulated the old training system before the EIS was introduced, vocational training was provided mostly to nurture skills needed in the manufacturing sector, especially for non-enrolled youths. Under this system, the government trained production workers with basic skills while firms conducted mandatory vocational training in the form of in-house training. However, this compulsory in-house training system lost its positive role as the labor market condition changed. Firms were demanding more skilled workers, and the training system had to change so that firms would be provided more autonomy in training workers.

The Employment Insurance Act allowed for and induced firms to conduct in-house training voluntarily. With the implementation of the vocational competency development program, many more firms participated in vocational training than when the mandatory in-house training was in effect. The program promoted participation in a vocational competency development program and provided a foundation for a lifelong vocational competency development system.

The UI component of the EIS and its accompanying need to administer the payment of unemployment benefits with a placement service required an improved infrastructure for public employment services. Employment centers had been established across the nation to administer UI-related operations and placement services. The internet-based labor market information system, Work-Net, was launched as part of such efforts. Before the EIS was introduced, Korea’s PES infrastructure was very poor, but the implementation of the EIS upgraded facilities for employment services.

IV. Development of the EIS

1. The EIS before the financial crisis

During the economic development era from 1962 to 1992, the Korean economy provided jobs through a high rate of growth without aggravating income distribution. The average economic growth of 8.6% per annum led to over a forty-four thousand job increase per year, and this job creation reduced poverty. In 1992, the Gini coefficient was no more than 0.245 and relative poverty ration was 6.5%. From time to time, wage policy or income policy was enforced to attenuate inflation pressure. Instead, firms took over the welfare needs of workers. Among those benefits firms were responsible for was severance pay, which was often called retirement allowance as well.³

Labor market participants were accustomed to benefits given via firms but not accustomed to demanding cash benefits from the government because the Korean people had never experienced such cash benefits in the form of public transfer prior to that time. In 1996 and 1997, those unemployed eligible for unemployment benefits were relatively high-income earners due to the fact that coverage of the EIS was limited to those workers in businesses

³ Severance-pay, otherwise called retirement allowance, is financed entirely by employers and is given to those who have worked at least one year in a company regardless of reasons of separation. The benefit level is one month's salary per year's service. Eligibility of the scheme has been limited to workers in companies of a certain size; it applied to companies with 30 employees or more in 1961 before the coverage was extended steadily to include workplaces with five or more employees in 1989. Since December 2010, it has applied to all companies with at least one employee. In many developing countries, whether or not a severance pay funded by the employers as a substitute for unemployment insurance restricts formal/regular employment generation is a contentious issue (see, for example, Heckman and Pages 2000 and Gruber 1995). The incidence of payroll tax and its impact on the demand for labor can be different depending on the labor market condition. Korean experience of severance pay is an interesting case because a strong (regular) employment growth has evolved hand-in-hand with generous severance pay. It is thought that Korea could achieve employment growth of regular workers even with the generous severance pay regulation, due to the high growth rate which might have surpassed the negative effect, if any, of the payroll taxation.

with at least 30 employees, and eligible persons who had satisfied eligibility conditions were mainly those who worked for large firms. The unemployed regarded it as shameful to visit public employment service agencies to declare and receive unemployment benefits. The total number of unemployment benefit recipients was not more than 7,200 in 1996 and 40,000 in 1997. Applications for employment subsidies were negligible. In searching for jobs, individuals did not think of visiting public employment service agencies and continued to seek jobs via personal networks. According to a survey conducted in 1997, around 8% of job searchers reported utilizing public employment service agencies, while more than 30% of job searchers stated that they had searched for jobs via relatives, friends or other acquaintances.

This response from the labor market to the EIS was far from what the Ministry of Labor had expected, to the extent that the government was embarrassed. The Ministry of Labor planned public relation campaigns to help make the EIS better understood by actual and potential labor market participants. However, the labor market turmoil following the financial crisis dispelled these worries and presented dramatically new challenges to the government.

2. The financial crisis in 1997 and evolution of the EIS

In November 1997, the Korean economy was hit by a devastating economic crisis. The following year, declining macroeconomic conditions brought about major disruptions in the labor market: a quadrupling of unemployment, a 9.0 percent fall in real wages, an informalization of remaining jobs,⁴ increased job insecurity, and rising poverty and inequality. Faced with high and continued increasing unemployment, people began to take advantage of the EIS and the Korean EIS contained diverse and intense measures to alleviate the adverse

⁴ The proportion of regular workers fell from 54.3% in 1997 to 47.9% in 2000.

impacts of the crisis on the labor market. The key measures adopted can be classified into four categories: (1) unemployment benefits as a means of income support, (2) job training for reemployment, (3) employment subsidies for job maintenance and employment promotions for disadvantaged workers, and (4) public employment services and a labor market information system.

1) The unemployment insurance component of the EIS

With severe economic recession and massive unemployment, poverty among the jobless and low-income families emerged as a priority social issue that needed to be addressed immediately. Income support programs were implemented in two directions. First, in order for the EIS to care for as many unemployed people as possible, its coverage was extended, qualification requirements were relaxed, and UI beneficiaries were given up to 60 additional benefit days. Second, the low-income jobless were given an income or credit support such as loans for living expenses (including family's medical and educational expenses) and other public aid benefits.

When the EIS was first introduced, UI coverage was limited to workers employed at firms with 30 or more employees. In the face of rising unemployment and the growing unemployment vulnerability of low-wage earners at small size firms, the extension of UI coverage was deemed critical to expand the social protection of the unemployed. In response, the Korean government extended UI coverage to firms with 10 or more employees in January 1998, to firms with 5 or more employees in March 1998, and finally, to all firms with at least one employee in October 1998 (Table 2). After these three consecutive amendments of the Employment Insurance Act in 1998, only those part-time employees working less than 80

hours a month and daily workers employed for less than a month remained ‘legally’ excluded from EIS coverage.

However, the extension of EIS coverage had a very limited effect on protecting the unemployed in that simply being enrolled did not suffice for UI benefit eligibility. Under the old rules, one must be involuntarily laid off after having contributed insurance premiums for more than 12 out of the previous 18 months to qualify for UI benefits. With these requirements, however, short-term contract workers (those whose employment contract period is less than a year) and other unstably employed workers at small firms found it difficult to be eligible for UI benefits. To better protect those marginal workers and newly enrolled employees, the government relaxed its eligibility conditions, including the easing of the minimum contribution requirement from 12 out of the previous 18 months to 180 days out of the previous 12 months.

The duration period of UI benefits varied depending on the enrollee’s employment period and the claimant’s age. The range was from a minimum of 60 days to a maximum of 210 days. However, since Korea's EIS was implemented only on July 1, 1995, the insured period of employees could not exceed five years; thus, the actual duration of UI benefits could not exceed 150 days until June 30, 2000.

Given the limited benefit duration and the unprecedented unfavorable labor market situation, the extended benefit rule was put into operation from July, 1998 so that the qualified unemployed could receive up to 60 days more than the period designated by the benefit duration matrix. Further, the UI benefit duration matrix from 60 to 210 days was modified to 90 to 240 days (Table 3), with the new matrix going into effect in January, 2000. In essence, the average duration of unemployment benefits increased to 126 days in 1999 from 85 days in 1997 and 91 days in 1998.

Table 2. Coverage extension of the EIS

Date	Unemployment Insurance Component	Employment Subsidy Component & Job Training Component
July 1, 1995	≥ 30 employees	≥ 70 employees
January 1, 1998	≥ 10 employees	≥ 50 employees
March 1, 1998	≥ 5 employees	≥ 50 employees
July 1, 1998	≥ 5 employees	≥ 5 employees
October 1, 1998	≥ 1 employee	≥ 1 employee

Source: Ministry of Labor (2001a)

Table 3. Benefit duration matrix

		(unit: days)				
		Insured Employment Period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	Over 10 years
Age of the Claimant	Below 30	90	90	120	150	180
	30-50	90	120	150	180	210
	Over 50 and Handicapped	90	150	180	210	240

2) Job training for reemployment

Programs in the job training component of the EIS provided accommodations for the unemployed to enhance their job skills and thus increase their employability by providing retraining opportunities for the unemployed. Since the outbreak of the economic crisis, the EIS expanded its training programs for the unemployed. In 1998, about 163,000 unemployed participated in and benefited from EIS job training programs for the unemployed, approximately eight times as many as those who had participated in the preceding year. The expenditure for these programs amounted to 191 billion won. In 1999, the EIS provided training opportunities for 171 thousand jobless workers with a budget of 307 billion won. In 2000, 132 thousand unemployed workers participated in training programs, at an expenditure

of 216 billion won. On average, 48.6 percent of job trainees for reemployment benefited from the job training component of the EIS (Table 4).

Table 4. Job training for reemployment

(Unit: billion won, thousand persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Training for Reemployment by the EIS	191.0	163	306.7	171	215.5	132
Training for Reemployment, Total	656.8	363	514.4	371	440.3	222

Source: Korea Employment Information Service, Employment Insurance database.

Ministry of Labor (2001b).

Those unemployed workers who had been employed at firms covered by the EIS were eligible to apply for these reemployment training programs and received training allowances that lasted from one month to one year, up to a total of three times, until they were able to obtain a new job. Training allowances were cut in half if participants continued to partake in the second training course and were reduced to zero for participation in the third training course.

Training allowances ranged from 200,000 to 300,000 won (equivalent to 60-90 percent of the minimum wage at that time). Trainees who were learning skills for non-favored jobs, which had been faced with a labor shortage amidst the deep recession, received additional bonuses. Similar training opportunities, financed by the general government budget, were given to those unemployed who had not been enrolled by the EIS. Therefore, substantial opportunities for vocational training were provided to all of the unemployed.

Job training programs for the unemployed offered opportunities for enhancing future employability to those out of work so that they could re-train themselves, while training

allowances helped alleviate their immediate economic difficulties. That is, apart from the formal purpose of job training, such programs served as a type of social safety net – those unemployed who could not receive cash benefits participated in job training programs and received training allowances.

3) Employment Subsidies

Subsidy programs were implemented via the employment maintenance/promotion component of the EIS. Employment maintenance subsidies intended to minimize employment adjustments through dismissals by providing wage subsidies to firms that made efforts to avoid laying-off redundant workers. In order to be subsidized, firms needed to be in a situation in which employment reduction was inevitable for managerial reasons and had to adopt subsidisable practices such as: (1) a temporary suspension of business, (2) a reduction of working hours, (3) the provision of training to redundant workers, (4) the provision of paid/unpaid leave, and (5) the dispatch or reassignment of workers. Subsidies equivalent to one-half to two-thirds (depending on the size of the firm) of the wages or allowances paid to their workers were refunded for a maximum of 6 months.

Table 5. EIS employment subsidies

(Unit: million won, persons)

	1998		1999		2000	
	Expenditure	Beneficiaries	Expenditure	Beneficiaries	Expenditure	Beneficiaries
Employment Maintenance Subsidies	74,223	654,375	79,197	369,591	29,297	148,246
Hiring Subsidies	5,878	169	75,888	101,550	42,204	63,407
Employment Promotion Subsidies	16,186	120,721	29,149	198,783	42,148	233,426
Total	96,287	775,265	184,234	669,924	113,649	445,079

Source: Korea Employment Information Service, *Monthly Statistics of Employment Insurance*.

The requirements of employment maintenance subsidies were relaxed during the crisis and the assistance level was increased to provide more incentives and to cover more firms and workers. In 1998, a total of 74.2 billion won was paid for the employment maintenance of about 0.7 million workers, while in 1999, 79.2 billion won was spent for a total of 0.4 million workers. With the improving labor market situation in 2000, employment maintenance expenditures decreased to 29.3 billion won, covering 0.15 million beneficiaries (Table 5).

Subsidy programs were first criticized by some economists on the grounds that they might hamper or delay structural adjustment of the economy by subsidizing marginal firms that had lost competitiveness in the market. However, subsidized firms were not necessarily marginal firms destined to end up in bankruptcy. Sound firms could face temporary cash flow difficulties in the midst of the financial crisis as financial institutions did not function properly. In addition, since firms were free to decide whether to make use of subsidy programs or lay off redundant workers, there were no a priori reasons to believe that the subsidy programs prevented firms from restructuring. Thus, subsidy programs were advocated and maintained as an important element of labor market policy. In fact, according to Hwang (1999), firms with good employees tended to utilize the employment maintenance subsidies.

However, it is important that the contribution of employment subsidies in reducing unemployment not be exaggerated. The number of workers that benefited from the program was, on average, around 25,000 per month in 1998-99. Kim et al., (1999) analyzed the employment maintenance effects of employment subsidy programs using employer surveys as well as case studies. The estimated effect was 22.3 percent on average, which implied that the deadweight loss was in the 70 percent range. According to an assessment of PES staff and

monitoring reports, the deadweight loss and substitution effects of the 'grants to promote employment of displaced workers' had been substantial (Hwang, 1999; Kim et al., 1999).

The two other subsidy programs in the employment maintenance/promotion component of the EIS were hiring subsidies and employment promotion subsidies, which were intended to assist disadvantaged workers of the labor market such as those involuntarily laid off, elderly workers, female workers, female household heads, and the long-term unemployed.

4) Public Employment Services and the Labor Market Information System

With the surge in unemployment benefit claimants, the number of public employment service staff was insufficient to administer even the UI benefit payment service. Immediate expansion of PES capacity to meet the demand for both benefit payment and administration of other active labor market programs was deemed urgent. The government dramatically increased the number of PES agencies from 53 to 149 and the number of PES counselors from 141 to 1,919 between 1997 and 2000 (Table 6).

Table 6. Evolution of the number of PES agencies and staff

(Unit: offices, persons)				
Year	1997	1998	1999	2000
Offices	53	134	144	149
Staff	107	1,296	1,825	1,919

Note: The number of staff reflects only counselors for serial consistency.

Source: Ministry of Employment and Labor.

In 1998, to improve the quality of employment services and promote a customer-friendly environment, the government combined the employment insurance division and the job information service division of local labor offices into PES centers called “Employment Security Centers.” These centers were based on the concept of “one-stop service” to provide job seekers with information about job vacancies and vocational training information as well

as UI benefit payment services all in the same place. The government also eased regulations on job brokerage by private agencies and strengthened its support of free job placement services to trade unions and employers' organizations.

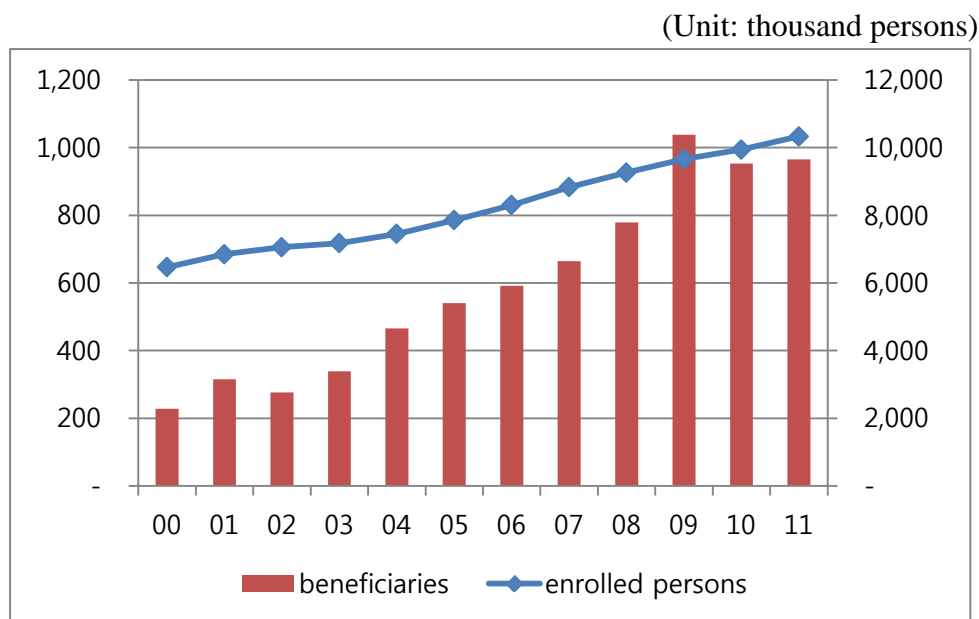
Although remarkable progress was made in the Korean PES during the three consecutive years after the economic crisis in 1997, the capacity of the Korean PES still remained insufficient to play an active role in meeting labor market needs. Rather, it had made the government realize that future policy tasks would be required to effectively meet the demands of job searchers via the PES. For example, strengthening 'counseling' services in a proper sense based on improvement of counselors' expertise, development of a new occupational classification system that would serve more effectively in job matching, and collaboration with private sector employment service agencies, were listed as some of the remaining areas that needed to be addressed.

As for the labor market information system, the government launched an electronic system in May 1999 called "Work-Net" benchmarking Canada's "WorkInfoNet." Work-Net, accessible on the Internet, provided various information on job vacancies, vocational training programs, career guidance, employment policies, employment insurance services, labor market statistics, and labor laws. Almost all job vacancies registered at public employment agencies could be found on Work-Net unless employers refused to allow the information to be uploaded. In order to make the system more effective and easier to use, the government planned to introduce a number of improvements including faster access speed and more user-friendly interface, the development of job vacancy information based on new occupational classification, the provision of detailed information on labor market trends, and employment outlook and wages.

3. The global financial crisis in 2008 and recent developments in the EIS

The financial crisis in 1997 played a crucial role in settling the EIS. Above all, the number of enrolled persons and unemployment benefit beneficiaries has continued to increase. Due to the refined and extended EIS, over a million unemployed benefited from unemployment benefits in 2009 when the Korean economy was attacked by the global financial crisis. As the number of beneficiaries increased, the recipient ratio, defined as ratio of UI beneficiaries with respect to total unemployment, increased from 8.5% in 2000 to 40.0% in 2010 (Figure 6).

Figure 6. The number of enrolled persons and beneficiaries



Note: The left axis represents the number of beneficiaries and the right axis represents the number of enrolled persons.

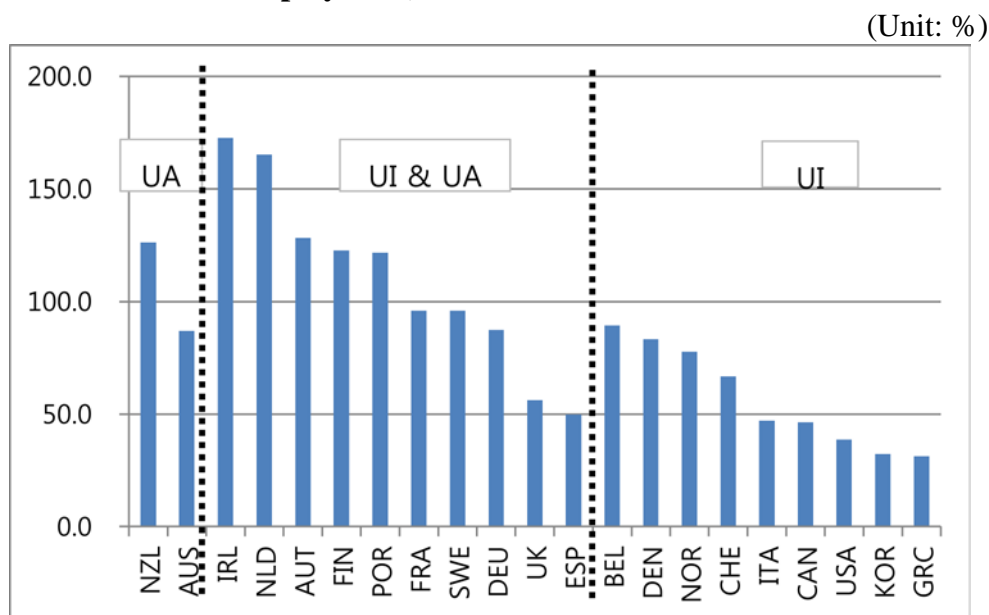
With most firms in the scope of the EIS, the economy-wide work sharing plan initiated by the quadripartite meeting could be supported more effectively by the EIS subsidy programs. In January, 2009, the Federation of Korean Trade Unions and Korea Employers Federation proposed a quadripartite meeting, in which not only employers and trade unions but also the

government and NGO representatives could attend, to establish countermeasures against the crisis. After a sequence of intensive meetings (seven official meetings, an open forum and a workshop until February 15, 2009), the quadripartite meeting members adopted a social pact on February 23, 2009. The pact articulated the responsibilities of workers, employers, government, and NGOs such as: i) work sharing efforts of both workers and employers, ii) government's support to workers and employers, iii) roles of NGOs, iv) job creation and extension of the social safety net and v) the social diffusion of the consensus and action programs.

Consequently to 'the Quadripartite Pact for Overcome Economic Crisis,' which defined the responsibility of workers, employers, government, and civil organizations, workers not only refrained from claims for wage increase but also turned in their wages and salaries for work sharing while employers maintained their employment either by instituting working time reductions, leave, temporary closing, etc. Through these means, the overall wage growth was pretty much moderated. To support the efforts of workers and employers, the government eased the eligibility conditions of the job maintenance subsidy and raised the benefit levels from two-thirds of wages to three-fourths of wages. To support the effort of social partners, the government provided tax incentives to both employers and workers. One of the supporting measures of the government was to recognize 50% of turned-in wages and salaries as cost of firms while workers were given income tax deduction for 50% of turned-in wages and salaries. In calculating retirement allowance and unemployment benefits, pre-crisis level wages were applied as far as it was advantageous to workers. Also, in many government programs such as credit guarantees and subsidies for training, those firms which fulfilled the pact were given priorities.

However, despite all the achievements, the nation's social safety net for the unemployed is still riddled with holes, which can be evidenced, for example, from the fact that the recipient ratio is far lower than other OECD countries (Figure 7). The number of PES staff has increased to three thousand, but this is still insufficient.

Figure 7. International comparison of recipient ratios (UI beneficiaries with respect to total unemployment)



Note: 1) The ratio is an average of 2005-09 for Korea and average of 2000-04 for all other countries.

2) UA designates unemployment assistance.

3) UI designates unemployment insurance.

Source: Korea's ratio is calculated by the author based on Statistics Korea's *Economically Active Population Survey* and Korea Employment Information Service's *Monthly Statistics of Employment Insurance*.

The other ratios are from Brusentsev and Vroman (2007).

As of 2010, there were 17.2 million wage workers in the Korean labor market. Of these, only 10.7 million employees (62.6 percent of wage workers) were enrolled in jobs that would qualify them for UI benefits in the event of unemployment. The gap in coverage comes from two sources: employees who are supposed to be covered but are not, and employees who are not supposed to be covered legally under the present law. Even if the latter is taken into

consideration the ratio remains 72.5% (Table 7). Thus, one of the major problems with Korea's unemployment insurance is that even though Korea extended the scope of the EIS to all firms, that coverage still remains incomplete. The main source of the gap is low-wage earners and non-regular workers in small firms who are not properly reported to the labor administration.

Table 7. Coverage of the EIS

(Unit: thousand persons, %)

	Total employment (A)	Employees (B)	Employees to be enrolled by the law (C)	Actual no. of enrolled employees (D)	(D/A) × 100	(D/B) × 100	(D/C) × 100
2000	21,042	13,548	9,586	6,747	32.1	49.8	70.4
2010	23,684	17,154	14,811	10,731	45.3	62.6	72.5

Source: Author's calculation based on the *Economically Active Population Survey* and *Monthly Statistics of Employment Insurance*.

In order to fill in the holes of the safety net, the government has recently taken a measure to subsidize the social insurance premiums of low wage workers. To those low wage workers in companies with less than ten employees, one-third to one-half of the Employment Insurance premium and National Pension premiums will be given if the employer requests them. For those workers whose monthly wages or salaries are less than 1.05 million won, a half of the insurance premiums will be given to the employers. To those whose monthly wages or salaries fall within the interval between 1.05 million and 1.25 million won, a third of the insurance premiums will be given. This will go into effect from July, 2012 and is meant as an incentive measure to encourage employers to report undeclared workers to the social insurance administration without any enforcement measures. This initiative seems to be more likely to have no effect than to induce undeclared workers to be reported without enforcement measures or collection of insurance premium in the form of withholding tax, which would require a considerable reform in taxation system.

Even if the capacity of the PES has been expanded quantitatively during the economic crisis in 1997 and following years, PES counselors could not afford much time in actual in-depth counseling. Rather, they were preoccupied with such activities as the registration of workers' records, recording job vacancies, and processing the unemployment benefit claims of workers and subsidy claims of firms. As the PES gave top priority to processing UI benefit claims rather than job placement, most job placement services were handled by private sector agencies and on websites of private dot-com companies. Work-Net was improved continuously to enable the provision of job-placement services with relatively little staff involvement. One hundred and forty-nine employment security centers were reorganized and consolidated into to eighty-one centers. They were moved to major transportation points and renovated with much modernized facilities and space. Despite all these reforms in PES and the labor market information system, the increase of PES staff was constrained by the central government because of 'the small government principle' and the number of PES staff still remained insufficient (Table 8).

Table 8. The Number of PES staff

(Unit: thousand persons; persons)

	No. of PES staff (A)	Labor force (B)	Unemployment (C)	No. of labor market participants per PES staff (B/A)	No. of the unemployed per PES staff (C/A)
Germany(2011)	113	41,684	3,140	369	28
UK(2008)	80	31,125	1,783	389	22
Canada(2011)	16	18,525	1,484	1,158	93
USA(2008)	70	154,287	8,924	2,204	127
Japan(2008)	25	65,900	2,650	2,636	106
Korea(2011)	5	25,420	825	5,330	173

Source: Ministry of Employment and Labor.

It was only from 2005 that the Korean government began to expand PES. To increase the number of staff for the Job Centers, 620 counselors were newly recruited from 2006 to 2007. Meantime, from 2006, intensive counseling, called ‘customized employment services,’ was provided to jobseekers in order to assess the capabilities of the job seeker and to establish a subsequent individual action plan. The customized service aimed to provide job placement service for individual job seekers in a step-by-step manner. Such services helped identify employment services which should be catered to vulnerable or disadvantaged job seekers. In 2006, the “YES (Youth Employment Service)” program was adopted.

In 2009, the Korean government introduced an ‘active’ labor market integration program, called “Job Finding Success Package.” Based on a critical review of social security reform in European countries, the Job Finding Success Package was prepared by the Korea Labor Institute and the Ministry of Employment and Labor from the second half of 2007. Based on the report submitted by the Korea Labor Institute, the Ministry of Employment and Labor started an implementation plan in 2008. This was a New Deal-type program in Britain and targeted vulnerable groups in the labor market. Based on individualized consultation, the program offered customized training and placement services depending on the capacity of job seekers. An allowance was given to each participant if s/he succeeds in finding a job at the end of the program. Participation was voluntary, but the participants were obliged to follow the ‘Package’ starting from an intensive counseling. This was a means-test-based program: even if a participant was not enrolled in the EIS, s/he was entitled to receive the package service as long as s/he belonged to a low-income family as defined by the law. The ‘Package’ program was implemented tentatively in 2009 for 9,831 participants. As the capacity of the PES was limited, the Ministry of Employment and Labor appealed to in-sourcing and

outsourcing of employment services. Private employment service companies and non-profit organizations participated in implementing the ‘Package’ program.

The tentative program turned out to be successful. The job finding rate of participants amounted to 54.1%. The program was extended, and the number of participants increased to over sixty thousand in 2011 (Table 9). Based on the experience of running the Job Finding Success Package, a similar program, called Finding New Job program, has been extended to middle- and old-age workers (aged 40 to 64) in 2012. Also, the YES (Youth Employment Service) program, which was introduced in 2006, was modified in accordance with the New Job Finding program (Table 10). The three programs are not financed by the EIS, but the PES of the EIS plays a crucial role in coordinating and delivering the programs. These three employment services with activation programs were possible because of the build-up of institutions and accumulation of knowledge on employment services since the late 1990s. However, as the number of participants increased beyond the capacity of PES, some outsourced services were not appropriately managed. A minute evaluation will be made in 2012 so that the government takes an improvement measure.

Table 9. The number of participants and job finding rate of Job Finding Success Package

	(Unit: persons, %)		
	2009	2010	2011
Number of participants	9,831	25,132	63,728
Job finding rate	54.1	60.4	65.2

Note: Job finding rate is defined as a rate of success within twelve months which is the maximum duration of ‘Package’ program per participant.

Source: Ministry of Employment and Labor.

Table 10. Employment services with activation programs

	Job Finding Success Package program	New Job Finding program	YES (Youth Employment Service) program
Target group	Low income jobseekers at all age levels <ul style="list-style-type: none"> Those belonging to the households with earnings less than 150% of minimum costs of living or beneficiaries of “National Basic Livelihood Security” who are capable of working Homeless, North Korean refugee, youth in troubled family, and handicapped jobseekers 	Middle- and old- job seekers aged 40-64 <ul style="list-style-type: none"> Those belonging to the households with earnings less than 200% of minimum costs of living Unemployed more than one month since receiving final unemployment benefits Unemployed that have subscribed to employment insurance in the past but do not yet qualify for employment benefits Jobseekers unemployed for the past six months or more 	Youths aged 15-29 <ul style="list-style-type: none"> Unemployed high school graduates Unemployed college or university graduates who have not found a job for more than six months since graduation
Services	Stage 1: Diagnosis and career path-setting (three weeks to one month) <ul style="list-style-type: none"> Participants receive intensive individual counseling from Job Centre counselors (employment consultants), and an assessment on their employment abilities, desire and techniques. In accordance with the results of the evaluation, an Individual Action Plan is established, which includes services provided after the second stage. Stage 2: Improvement in vocational ability (max. 8 months; max. 6 months*) <ul style="list-style-type: none"> Vocational training, jobs for experience, start-up programs, youth intern programs. Stage 3: Intensive job placement (max. 3 months; max. 2 months*) <ul style="list-style-type: none"> Job Centre counselors accompany program participants to their job interviews and provide support. Group interview sessions are held by participants and recruiting companies. 		
Allowance	Stage 1: KRW 200,000 per month Stage 2: KRW 200,000 per month, and KRW 116,000 when participating in vocational training		
Allowance payment period	A maximum of 6 months		
Support to training costs	Up to KRW 3 million via training voucher system	Up to KRW 2 million, via training voucher system	
Incentives upon successful job finding	Up to KRW 1 million as successful job finding allowance	None	

Note: * Stage-2 and Stage-3 services are given up to eight months and three months in Job Finding Success Package program, and up to six months and two months for YES program and New Job Finding program respectively while allowance payment period is up to six months in all the three programs.

Besides the restructuring triggered by the crisis continues, and the structural adjustment of both the private and public sectors which inevitably affected the labor market, worldwide factors such as technological change and globalization have been forcing incessant adjustments to the labor market. The external labor market is rapidly developing in Korea, and the extent of traditional employment relations based on seniority is dwindling. Firms have less incentive than before to train employees who may soon leave for other firms. This new unstable environment is forcing the training system to allow for more worker initiatives than training-service providers or firms. Besides, adapting the training system to non-regular workers and workers in SMEs has become another important issue to be addressed because the participation of this population in the training was low under the existent regulations of the EIS. The Korean government introduced an individual learning account system from 2009 so that non-regular workers could access more easily to learning programs and choose learning programs autonomously. This initiative was taken to cope with the asymmetrically low participation of non-regular workers in the training components of the EIS. However, this initiative played a role of anti-crisis measure in the midst of the global financial crisis. In fact, the financial crisis in 1997 hit regular workers as well as non-regular workers. In contrast, in 2009, it was mostly non-regular workers who were influenced by the shock.

The deadweight effect in subsidy programs has long been the object of criticism. From 2010, the Ministry of Employment and Labor changed the benefit rule of hiring subsidy programs. Before this change, subsidies were given to those firms which met predetermined conditions. However, now the Ministry invites firms to participate, and each firm submits a proposal. Only those selected firms which pass the screening process of the Ministry of Employment and Labor are given subsidies.

V. Summary and Conclusion

This paper first examined changes in the labor market condition and the evolution of policy instruments and then described how Korea's active labor market's policies were shaped and established. Most active labor market policy components are contained in or based on the Employment Insurance System. The financial crisis in 1997 and resulting labor market turmoil provided a critical incentive for the EIS to be fully extended. The emergency labor market policy responses in 2009 were possible and effective because of the build-up of labor market institutions in the past one and half decades. There are some interesting and meaningful lessons from the Korean experience.

First, economic and social conditions must be mature enough before a country introduces a traditional type unemployment insurance and other active labor market policy measures based on it: the economy should be characterized by a sufficiently large portion of the modern sector so that most workers are employed in a continuous, not discrete, manner, working on a daily or seasonal basis, and the administrative capacity should be reasonable enough to control the moral hazards of unnecessarily extending the search period and to monitor the evasion of unreported work. This does not necessarily mean that all the labor market institution development or active labor market policy should follow a certain level of economic development. Korea had run training policy and public works program successfully without demanding strict employment records. Also, Korea had other institutional tools to protect the unemployed such as severance pay. However, a safety net for the unemployed requires good record keeping, which is enabled when the proportion of the modern industrial sector is sufficiently large.

In Korea, the contribution of the UI has been very limited in securing the livelihood of the unemployed. Also, of the four main social insurance schemes, people usually place the least importance on the UI. In contrast, compared to other social insurance schemes, the UI requires the most refined employment record-keeping infrastructure due to the very nature of its benefit rules. Therefore, where there is a large informal sector, UI coverage, as well as its role in protecting the unemployed, is limited because it is ultimately difficult to maintain the employment records of informal sector workers. Conversely, the UI and its scope of extension can provide momentum for an economy to transform a large proportion of its informal sector into the formal sector. Therefore, when a developing country introduces unemployment insurance is a matter that requires careful consideration. If the objective of introducing the UI is merely income support for the unemployed, individual savings accounts or severance pay schemes can be more efficient and effective options.

Second, countries can respond more effectively and efficiently to unemployment and promote reemployment when active labor market policy programs are linked with unemployment benefits in a comprehensive institutional framework than they can when the system relies mainly on traditional unemployment benefits. Although resources to implement active labor market policies are usually financed through a general budget, fund-type financing may implement the built-in stabilizer role more effectively. Korea accumulated the employment insurance fund before the financial crisis and coped with the crisis more effectively in 1998 and 2009, when the Korean economy was hit by the Asian financial crisis and global financial crisis respectively.

Third, if the infrastructure of the active labor market policy is solid, social protection systems can be run more equitably. When the Korean economy dipped into an unprecedented period of turmoil in 1998, hundreds of firms went bankrupt every day and unemployment

soared. Moreover, non-regular and low-educated workers suffered disproportionately. Jobs became insecure and core disadvantaged groups in the Korean labor market experienced recurrent unemployment, even if they did not fall into the long-term unemployment trap. Low-income families faced declining incomes and received less wage increases even with the ensuing economic recovery. Paradoxically, non-regular workers and employees in small businesses were excluded from social insurance coverage or were inappropriately covered in the capacity of the self-employed. Shortcomings of the existent social insurance system, including the EIS, became evident.

Though only the employees of large companies (those employing more than 30 workers) were entitled to unemployment benefits when the EIS was introduced in 1995, the scope was rapidly extended to firms of all sizes after the onset of the financial crisis. Once the scope of the EIS was extended, other social insurance schemes followed the example of the EIS, such as the Work Injury Compensation Insurance and the Pay Guarantee Fund in July, 2000, the National Health Insurance in July, 2001 and the National Pension in 2002. Prior to 2001 and 2002 respectively, the National Health Insurance and National Pension covered those workers in firms with less than 5 employees only in the capacity of self-employed, not as employees, demanding not only employee premiums but also employer premiums to workers. All this coverage expansion was stimulated by the extension of the EIS.

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